Amcor Analyst Conference Call

Thursday, 9th June 2016

Amcor Analyst Conference Call

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Operator: Ladies and gentlemen, thank you for standing by and welcome to the Amcor Analyst Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question you will need to press *1 on your telephone keypad. I must advise you that this conference is being recorded today, Thursday, 9th June 2016. I would now like to hand the call over to the speaker, Mr Ron Delia. Thank you, please go ahead.

Ron Delia: Thank you, operator, and good morning or good afternoon, everyone. Thanks for joining the call today. With me here in Zurich is Michael Casamento, Amcor's CFO, and Michael and I will make some comments, then we'll open the line for – for questions.

We made two announcements today, both of which relate to adapting Amcor for the future. We made one announcement around initiatives we're taking in our Flexibles reporting segment, which are all about taking a very good business with good margins and high returns to an even higher level of performance. And in this case, particularly adapting the business to enable faster organic growth. And then the announcement related to Venezuela is really about minimising any potential earnings volatility going forward in a business environment that really is among the toughest in the world, and getting more challenging by the day, and importantly making sure we're really focused on the growth opportunities we have in emerging markets at large, but particularly in the rest of Latin America.

So I'll start with the Flexibles segment, and it's probably worth a bit of context here, so I'll take a step back to provide a bit of the landscape as we see it. Now, in August of last year, and also again in February, I shared some thoughts on the opportunities we are prioritising at Amcor, and as part of that discussion, we talked about the operating environment being low growth, especially in developed markets, and that we don't expect that to change any time soon. And to compete and thrive in an environment like that, we highlighted two priorities, one of which related to generating our own growth, and the second priority related to really aggressively adapting our businesses. Now, we use the term generating our own growth because we don't expect market growth to be very robust. We don't expect it to be robust anytime soon. And so accelerating our growth, then, is about accelerating our customer focus and building on our innovation strengths, as well continuing to drive our M&A agenda. And I think we've made very good progress in these areas over the last 9 or 12 months or so. With regard to aggressively adapting our business, to some extent we've done this over the years. But the initiatives we announced today really are intended to accelerate the pace, specifically within the Flexibles reporting segment, and even more specifically with the focus on the developed markets.

Now, before I get into the details, I want to just be really clear. The Flexibles segment, which has got flexible packaging businesses and tobacco packaging businesses, this is a really good collection of businesses with a number of strengths. They – these businesses are all market leaders; they are all – they've all got very strong positions in markets that are well-consolidated. We've got excellent technology, innovation capabilities that are seen as the strongest in the industry, and strong relationships with all of our key customers. And I think it goes without saying, this is a segment that has return on capital of almost 25%, and operating margins of close to 12%. So this is a really good collection of businesses, and the initiatives we're announcing today are just about building on that foundation to move the business to another level. And we think to do that we can reduce some complexity, we can drive greater customer focus, and we can ensure the cost position of the business remains competitive. And really there's two – two themes, I guess, to these initiatives. One is around footprint optimisation, to make sure we're aligning capacity with market demand, and obviously improving the cost base. And this is likely going to result in the restructuring or closure of several plants in developed markets. And then streamlining the organisation, particularly in Europe, is going to give an opportunity to drive greater customer focus, greater speed to market, and just a simpler business, which makes for a faster business. But at the same time, this will also result in lower overhead costs.

Now today, we're not going to talk about specific plants or exact number of plants or headcount. We've got details that are being developed and finalised, and as you can appreciate, there's local consultations that have to occur, and we'll be making announcements locally at the appropriate time, and then obviously at our periodic market announcements around results, etc., we'll provide an update and make it very clear what's actually transpired. Now, in total these initiatives are going to deliver pre-tax benefits of between US$40-$50 million by the third year. We would say that 25-30% of those benefits will impact the 2017 financial year; 45-50% of the benefits will impact the 2018 year, and the remaining benefits will impact in 2019. And we see this is a good use of cash, a total return of about 35% on the cash that we're going to invest here, which will be between US$120-150 million, primarily across the 2017 and 2018 financial years. Now, there's some non-cash costs, so inclusive on non-cash costs the PBIT will be negatively impacted by about US$170-200 million, of which $90-100 million will be incurred in this 2016 fiscal year, with the remainder being recognised next year, in 2017.

I think the important thing here to point is when we combine the benefits of these initiatives, plus the benefits from the recently announced Alusa acquisition, the Flexibles segment has two initiatives that will provide benefits of US$100 million on top of the organic growth that we expect that business to realise. So that business has got a couple of big themes or priorities or initiatives here in terms of restructuring, and a big acquisition which will give it a boost of $100 million over three years, on top of the organic growth that we would expect the business to continue to generate.

So with that, I'll turn it over to Michael to talk about Venezuela and then come back at the end to wrap up.

Michael Casamento: Thanks, Ron. Obviously as you're aware, conditions in Venezuela are exceptionally complex and unique. At the time of the half-year results, we provided some comments around the deteriorating business environment, and the increased variability in access to the various exchange rate mechanisms. Since that time, conditions have continued to deteriorate, and in particular we've seen access to US dollars becoming increasingly variable and more sporadic. For the first time, our operations have incurred periodic supply issues of key manufacturing inputs, which has at times restricted our ability to operate. This is the main thing that has changed in the last few months, and has resulted in our decision to effectively adopt the floating exchange rate for Venezuelan bolivars for financial reporting purposes for the – from the 30th of June 2016.

This is a proactive and conservative approach which is being taken in order to reduce risks and the earnings volatility that could result from further restrictions in variability and access to US dollars. Local manufacturing or commercial operations are not impacted by this change. The business will continue to produce and sell products in the local market, when US dollars are available to pay for raw material imports.

So for the year-ended 30th June 2016, there are three things to note. Firstly, the operating earnings of the business are not expected to be impacted as the 13.5 average exchange rate we applied at the half-year continues to accurately reflect the rate at which we've accessed US dollars during the year. Our outlook for the Rigid Plastic segment has therefore not changed, and we continue to expect strong earnings growth relative to the $321 million we reported in 2015. Secondly, a one-off charge of approximately US$350 million will be recognised in earnings. This is a combination of foreign exchange translation losses, which have accumulated over the past ten years as the bolivar has devalued. And secondly, the estimated net asset investment in the Venezuela business as of 30th June 2016. So after taking this write-off, there will be no material exposure left on the balance sheet related to Venezuela. And finally, the one-off charge is not expected to impact Amcor's ability to fund capital expenditure, acquisitions, or dividends.

So when we look forward to the 2017 financial year, US dollar earnings from Venezuela will be minimal. We are expecting the variability and access to exchange rate mechanisms to continue to increase, and this could result in the business being subject to the floating exchange rate which is currently tracking above 500 bolivars to US$1. As a result, profit before interest and tax in the Rigid Plastic segment, and for the Amcor Group is expected to be negatively impacted by approximately US$40 million. On an after tax basis, earnings are expected to decline by approximately US$20 million. And for both the restructuring costs and the Venezuela one-off charge, we will be clearly isolating these in the accounts to ensure that the underlying performance of the business is fully transparent. Now with that, I'll hand back to Ron.

Ron Delia: Okay, thanks Michael. Before wrapping up here and turning over to questions, I just would like to add a few more comments on Venezuela and emerging markets more broadly. Now, it's important to understand the steps we're talking about today – the ones we've announced and Michael just described – relate to the way we account for earnings only, they don't directly affect the local operations. And in Venezuela, we have one large-scale injection plant, and we've got five on-site blowing facilities, and we've been there for over 20 years. We've got a talented management team, and a really strong joint venture with Polar in that country. And as Michael mentioned, the business continues to produce and sell products in the marketplace. What we're doing here is trying to protect potential volatility – the business from potential volatility going forward, if access to US dollars, which we need to secure resin, becomes more restricted. So the priorities for the business right now are the same as the priorities for every business we have, which are to continue that co-workers remain safe – to ensure they remain safe, to support the customers, and ensure the assets are well maintained.

Now, just stepping back, you know Amcor operates in more than 80 plants in more than 27 emerging market countries, and from time to time we have, and continue to face challenges in individual countries. But we're committed and we've got conviction in the long term attractiveness of emerging markets, and importantly in our ability to deliver value on these investments.

So just before I turn it over to questions, it's just also worth pointing out that neither of the Flexibles initiatives we announced today nor the revised outlook for Venezuela in any way impact our shareholder value creation model. We're going to continue to generate strong cash flow, and the ability to fund capex or acquisitions or dividends is not going to be constrained in any way, and our balance sheet remains strong and very healthy.

On that note, operator, we'll turn it over to the lines for questions.

Operator: Thank you. We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone, then wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. There may be a short silence while we wait for questions to queue up.

Thank you. And our first question comes from the line of Mark Wilson from Deutsche Bank. Please go ahead.

Mark Wilson: Thanks very much, Ron. I was just wondering, you know, looking at Venezuela for fiscal '17, what are you actually assuming in terms of production? Because it does appear as though it's going to be completely determined by the availability to purchase raw materials. So what are the assumptions there in terms of production and recovery of overhead costs?

Ron Delia: Yeah Mark, so that's a good question. I mean, what we're doing here today is effectively adopting an exchange rate, which means that there will be no earnings from Venezuela in our P&L, and no balance sheet exposure to Venezuela, regardless of the level of production next year. So, you're exactly right. The thing that will drive production will be the ability to import raw materials and – and that then is driven by the ability to access US dollars, which is, you know, increasingly difficult and increasingly sporadic. And so rather than expose the business to any sort of risk in terms from a financial perspective, we're making this accounting change here – effectively an accounting change – to eliminate any profit from Venezuela next year, and any balance sheet exposure to Venezuela going forward. So if we can produce – if we can produce, we'll produce. But we won't be realising profit.

Mark Wilson: Right, okay. So is there – I'm just wondering about the risks to – to that estimate. You know, is it possible that it could be, you know, a greater or lower impact than the $40 million?

Ron Delia: No, that's essentially the assumption that there is, you know, no profit coming through and no loss, I guess is the other way to – if you're – that's what you're getting at.

Mark Wilson: Yeah, yeah. Okay then. And Michael, I was just wondering if you could split out of the $350 million charge just how much of that related to the FX translation and how much to the net asset write-down?

Michael Casamento: Yeah, sure Mark. The way this works is obviously over time the – the translation of the – the FX translation accumulates over time, as I said, and you know, that's over a ten-year period. So, you know, of the $350 it's – more than half relates to the translation, and then, you know, the balance is then the net asset investment.

Mark Wilson: Okay, thanks very much.

Operator: Thank you. Our next question comes from the line of Richard Johnson from Citi. Please go ahead.

Richard Johnson: Thank you very much. I've just got a couple of questions on the Flexibles initiatives, Ron.

Ron Delia: Yep.

Richard Johnson: Firstly, is it possible to give me a feel of what the contribution from the two elements of what you're putting in place are to the savings? I.e. what's footprints and what's streamline?

Ron Delia: Yeah, it's – it's a bit early to be too specific, but I would say that the majority of the costs and benefits will come from the footprint.

Richard Johnson: That's great, so therefore you can be relatively confident around that number?

Ron Delia: Well, we're going to be very confident around both numbers. One – one aspect – one sort of initiatives relates to restructuring, or potentially restructuring and potentially closing several sites around the world, which we've done over the years and, you know, we've built a bit of capability around that area. The other relates to overhead areas and streamlining, which we've also done over the years. So these are, I would say, hard synergies, hard cost savings which we've proven quite adept at capturing and banking.

Richard Johnson: Great, thanks for that. And then on the streamlining element, I'd just be interested if you could perhaps just talk a little about exactly – I mean, I understand what it means, but what the sort of practical changes are that you –

Ron Delia: Yep.

Richard Johnson: – are making. So, what it means on the ground.

Ron Delia: Yeah – yep, exactly. Because this is about unleashing the business and helping it grow. And how is that if we're taking overhead out? Well, overhead can sometimes lead to complexity, and sometimes lead to some extra layers between, you know, management and customers, and all that kind of stuff. So there's a simplification going on here, a de-layering. And it's, in some respects, organising more – in a more focused way around specific end markets, and just getting closer to the customer in general.

Richard Johnson: And that element as you said, you've been – you've been – talking about for a bit – so presumably that side of it has already started?

Ron Delia: Well Richard, there's – there's a lot of local stakeholders and consultations and all the like that needs to be done here, so I don't want to be too specific, but we're going to certainly keep you posted as we go here in terms of progress that's been made over proceeding periods, and what we expect –

Richard Johnson: Okay.

Ron Delia: – is left to do.

Richard Johnson: That's great, thanks. And then just finally on Flexibles, you made the comment that you wanted to ensure your cost position remains competitive, which makes perfect sense. But I just wanted to double check you hadn't lost any share?

Ron Delia: No, we don't think we lost share. We – we think that – in fact, we feel like this is the right time to be taking these initiatives. We're dealing from a position of strength – strength in the market place, strength financially. You know, we put some new management in place last year, you might recall, and they've got their feet on the ground now, so it's the perfect time from a market position and internally for us to go forward with some of these a bit more bolder initiatives.

Richard Johnson: Great, and then just a last one from me. Michael, what's the revenue adjustment from Venezuela?

Michael Casamento: Yeah, it's a good question. Look, it – it ranges. It can range from somewhere between 3.5% to 5% of Amcor sales. That's just dependent on – on the level of inflation and the raw material pass-through, etc. So it's – it's within that range. Thanks very much.

Operator: Thank you. Our next question comes from the line of Scott Hudson from CLSA. Please go ahead.

Scott Hudson: Yeah, good afternoon, and good morning, Ron. I was just wondering if you could maybe give us some insights as to what changes the customers have been undergoing sort of in your Flexibles footprint that is – is driving you to I guess rationalise your asset base.

Ron Delia: Yeah, look Scott, first of all let me – let me just point out that, as I said earlier, this is a really strong set of businesses we have, right? In our – in our Flexible segment we have several operating divisions. We've got our flexible packaging businesses in the Americas, in Europe, and in Asia Pacific, and then we have our global tobacco packaging business. So it's a big part of the company, which is really strong from a financial perspective, and in the marketplace. You know, the context that we're operating in is low growth, and customers, you know, there's not any specific changes that I'd point to, although customers like Amcor have over the years been moving their centre of gravity from a production perspective towards more merging markets. They are also consolidating. You know, you could look at any number of our customers who would be talking about consolidating into a smaller number of facilities. Bigger facilities, more centrally located facilities, and shifting towards the emerging markets. And so we've been doing that as well, and what we're announcing here today is that we're going to do a little bit of that faster.

Scott Hudson: So there's no elements of a – I mean, I guess, a slowdown in revenue or earnings that you're trying to offset with these initiatives. This is just about making what you have, I guess, more efficient and better.

Ron Delia: Yeah, it's about taking what is – we think – a very good collection of businesses, and making them even better. And better in a way that will help them grow faster as well. So it's – it's exactly that. It's a proactive set of moves to boost this business up to the next level.

Scott Hudson: Okay. Just in relation to the emerging market portfolio, and I guess Latin America in particular, are there any other assets within the region, or any other countries within the region that you're concerned about with relation to currency volatility or exposure? I guess obviously Venezuela's the worst of the bunch, seemingly by far away, but are there any other kind of assets within the region that you – that you have some concern about?

Ron Delia: The short answer is no; we don't have concerns. We're – we're always on watch. Maybe I'll just remind folks how we operate in emerging markets, and then I'll talk a bit about Venezuela and the uniqueness of it. In Latin America, as we do elsewhere, we typically price in two ways. So most of the imports we – or most of the raw materials that we convert – particularly in Latin America, I'll stick there – are imported, and imported typically in hard currency, which means in US dollars. And so when we price those products locally, we have a component of the price that relates to the US dollar cost of imports, and we have a local basket of costs, if you will, that are priced in local currency, and adjusted for inflation. And it's been a tried and tested model for many, many years. We've been in Latin America for over 20 years. And it works well – it works well and even situations like we've seen in other countries where currencies have rapidly devalued or inflation has picked up. And so we have no concerns in any other place, and we believe that model is robust. Now, Venezuela is a unique situation, and I think unprecedented, you know, around the world in that you've got currency controls such that you don't have free convertibility of the local currency into hard currency and you have a hyperinflationary environment. And so any business in Venezuela that is dependent on imports of anything has been particularly challenged. And we are not alone here. Coca-Cola, you may have seen, a couple of weeks ago announced that they could no longer access sugar, and could not produce Coke. Many of the automakers have shut production. So, you know, this is a – I would say an outlier, and pretty unique situation which, it's just actually a quite sad situation on the ground there, because the country is – is somewhat dysfunctional, I think it's safe to say.

Scott Hudson: Great. And maybe just one more. Could you just I guess give us some sort of insight as to how these two things came together at the same time? What triggered – has there been a recent board meeting, or what was the trigger behind the sort of – the dual release?

Ron Delia: Look, they are two independent sets of activities, and two different parts of the business. I think from a Flexibles perspective, the management teams we put in place a year ago have been working through their agendas, and are now at a position where they're, you know, having local consultations and have their plans reasonably well advanced. And on that front, we wanted to make sure the market understood that we would have a one-time charge in this financial year, but the outlook for a big earnings uplift in the Flexibles segment – so we wanted to make sure that was clear. And in terms of Venezuela, look, the situation is quite dynamic, as Michael said, and it's gotten increasingly complex. And you know, we just want to take any noise out of the system and focus the business and the market, quite frankly, on all of the opportunities we have, not just in emerging markets, but across the company. So seemed like a prudent thing to do to take a proactive risk – risk management approach here at this point in time.

Scott Hudson: I appreciate it, thanks Ron.

Operator: Thank you. Our next question comes from the line of John Patel[?] from Macquarie. Please go ahead.

John Patel: Hi, good morning Ron. Just a related question to Scott's there, but you know, thanks for explaining the sort of model in terms of how you've managed your volatility there in Latin America. I guess we saw in the first half that you seem to be recovering cost inflation pretty well, you know, in markets like Argentina and Brazil. Has anything changed there particularly as it applies to Brazil and Argentina in terms of, you know, the model, you know, in practice working – working well for you?

Ron Delia: No, nothing John. Nothing. In fact, we're restating the guidance for the Rigids segment for this year. We've basically said that, you know, we still expect strong earnings growth this year, and there's no change to the model or the effectiveness of the model, rather, in any of the countries – Brazil or Argentina included.

John Patel: Okay, thanks. And just – just a follow up question: as far as the footprint review to the extent that you can say, I mean, so it sounds like it's sort of a combination of just sort of outright closure, but also partial redeployment of, you know, surplus equipment into other plants. So is – is there sort of any skew to either of those items?

Ron Delia: No, look if – you're exactly right, there'll be potentially here some restructuring of some plants and some – and some likely plant closures. It's not necessarily skewed one way or the other, there'll be more, I would say, likely closures than – than restructurings. But the other thing that's important to point out is it's not – it's not focused on any one particular segment, this is – across the broad developed markets portfolio we have in Flexibles – the Flexibles segment and we have in that space probably close to 100 plants. So it's a big part of – it's a big part of the business. And it's not – what we're talking about here today is not centred on any one segment in particular.

John Patel: Okay, thanks Ron.

Operator: Thank you. Our next question comes from the line of Ben Levin from Credit Suisse. Please go ahead.

Ben Levin: Hi, Ron. Just stepping in for Larry. Just wondering if you could talk more about your balance sheet, just given that now you may have some high net debt you're investing next year for the European – sorry, for the developed markets Flexibiles initiatives. You may have lower earnings from Venezuela. Just wondering if you can give us a feel for where you think your balance sheet position may be, and your capacity to do some big M&A transactions.

Michael Casamento: Hi Ben, it's Michael here. I can take that one for you – it's a good question. Clearly our balance sheet remains strong. We've got – we're continuing to have really strong cash flows from a diverse source of markets. We've got, you know, access to a diverse source of funding as well. And you know, we, you know, looking forward we see, you know, these activities don't affect that – that ability to fund acquisition or capex or investment in any way. So, you know, we really feel good about where the balance sheet is right now, and you know, continue to see that being strong over the longer term.

Ben Levin: Can I just ask, is there a specific target that you guys have? You know, is it 2.5 times leverage that you're trying to maintain?

Michael Casamento: No, no. I mean, in terms of our range we talk about a range of – a leverage of 2.25 to 2.75. Now, that's clearly not our covenant either, we've got – we've got a lot of headroom above that, so.

Ben Levin: Yep. Okay, no worries. Thanks.

Operator: Thank you. Our next question comes from the line of [inaudible] from NICO Asset Management. Please go ahead.

Speaker: Michael, of the $350 million write-down in Venezuela you mentioned 15% was due to FX. Is any provision already made for that on the balance sheet? And if so, what is the net impact on shareholders' funds?

Michael Casamento: Yeah, hi [inaudible], sure. Good question. Yes – no, clearly that – that translation loss that I referred to is already sitting in equity, so – so that doesn't impact into – in terms of this write-down it has no impact on the shareholders' funds.

Speaker: So you're sort of seeing about half of that coming through to the – to shareholders' funds?

Michael Casamento: Correct.

Speaker: Right. Okay, that's good. Thank you very much.

Operator: Thank you. Our next question comes from the line of Nick [inaudible] from Morgan Stanley. Please go ahead.

Nick: Thank you, good morning. Sorry, just a couple of quick questions first. Venezuela it looks like you're implying a 50% tax rate. But from what I can tell, the tax rate in Venezuela is 34%. So I'm just trying to reconcile that number.

Ron Delia: Are you talking about the difference between the PBIT impact and the PAT impact?

Nick: Yes.

Ron Delia: Okay, well this – we have a joint venture there. Michael, why don't you describe the joint venture accounting.

Michael Casamento: Yeah, sure. So, from – from the joint venture perspective we take 100% of the PBIT impact, but then we – we then convert that to PAT. We have to obviously take out the MI component. So –

Ron Delia: Minority –

Michael Casamento: – the minority – the minority interest component. So if you think about that, Amcor owns 61% of that business, and the minority – the minority interest is 39%. So you have to factor that in when we get from the 40 to the 20.

Nick: Sure. And then in Venezuela, do you have any cash tied up in that business that you can't access?

Michael Casamento: Yeah – no, no. Typically, in the accounts we refer to a trapped cash note. We do have cash in that business, it varies from time to time, and that clearly will be part of the adjustment that we make in relation to this $350 million charge.

Nick: So –

Ron Delia: I think one thing that's probably worth pointing in – in the nature – in response to your question, I mean as Michael said, some – some of that charge that you referred to is cash, and one of the things that changed here, we – we've gotten cash out of Venezuela over the years – substantial amounts of cash out of Venezuela over the years, for a variety of purposes. And I think what we're seeing now is a situation on the ground just getting even more challenged, and some question marks in our minds about that ability to get that cash out going forward. So that's sort of, you know, if you – if you wind back to Michael's comments about the rationale here, I think it sort of stems – it comes back to that point about uncertainty around cash going forward.

Nick: Sure. Are you able to say how much of the sort of $350 is cash then?

Michael Casamento: Obviously the amount is going to be dependent on where we end up at year end, so we're – we're still working through those – working through those numbers. But it's a smaller component because you've got offsets in other – other areas.

Nick: Okay. And then – then just on the restructuring. I know you're talking about, you know, there being a 35% return on – on the restructuring, but you know, compared to what we see other industrials, I guess, achieve from a similar restructuring, it – it seems like a very small benefit for the amount of money that you are spending. Can – can you point to the main reasons why that would be? I mean most industrials that I cover at least that are headlined, they were trying to tell me that they get a more than 100% return on restructuring. So I'm just trying to understand why yours is so much lower.

Ron Delia: Well, I'd like to understand why theirs is so high. That'd be fantastic. Look, for us to get a 35% return on the dollar of cash investment is a really – is a really good proposition. I think I'd point out that there would be some activity in parts of the world that are particularly high cost when it comes to retrenchments and severance. And, you know, that that varies depending on what you're actually doing. So in the case of, you know, activity in Europe in particular, it tends to be higher cost. Look, 35% for us is a very attractive investment proposition, so we're pretty happy to proceed with investments that have that kind of return.

Nick [?]: Sure, and so you're – you're talking about, I guess, being able to accelerate the organic growth, but you haven't given us any numbers in that. Just when I look at it and I see you're taking a $200 million cost to save, you know, some – some numbers that may hit your bottom line in three years, you know, it seems like a big upfront hit for – for something that – you know, you're obviously confident that you can deliver, but a lot could change in three years' time. How – to me it seems like you are trying to proactively get in front of something that you see coming your way. So can you – can you sort of split the two between what you think you need to do because if you don't, it's going to be a problem in a few years' time – and what you think you're doing to sort of accelerate the growth profiles of the organic business as it stands?

Ron Delia: Yeah, I mean first of all in terms of the return and the – and the one time hit, we think about it from a cash perspective. So, you know, not sure what – which is just our perspective. That's just the way we think about it. We've got to put a dollar of cash in, how much return are we going to get? So from that perspective, you know, it's $120-150 million of cash that we're investing, just like we invest in capital projects, and we're going to get $40-50 million of EBIT from that investment. So that's kind of how we think about it at Amcor. And look, I would say that the business is – is actually quite strong. Funds on – return on funds employed has been growing, its margins have been growing. And so actually the trajectory is up. So none of this is in response to having to remediate anything or fixing any issues, this is about better positioning a business that's already really well positioned. So there really isn't – I wouldn't be able to give you a split because we think about it entirely as better positioning the business. And really helping it release, you know, its full growth potential. Look, as far as the growth potential at Amcor, what we talk about is 3-4% organic growth. That's what this company is. But you get a total return, if you're a shareholder, of 10-15%. You've got a dividend yield of about 4% – 3% to 4% organic growth, and then we have a lot of cash. We generate a lot of cash with which we do acquisitions or we buy back shares. So I think it's a pretty resilient model, and this is all just buttressing that model.

Nick: Okay, thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press *1 on your telephone, and wait for your name to be announced. Our next question comes from the line of Maurizio Viani from AMP. Please go ahead.

Maurizio Viani: Good afternoon. Could you please split the cost in Flexible between Flexible and Tobacco?

Ron Delia: Yeah, I would say that this set of initiatives is spread across the Flexibles segment. And we haven't finalised all of the plans, Maurizio, but I would say that it's – it's not overly weighted towards any one segment. Tobacco is a portion of that segment, it's, you know, about 15% of the sales of Amcor Flexible – the Flexibles segment is two-thirds of Amcor. And these initiatives are pretty well proportional to the sales and – across that segment. So it's not overweight in any one or another.

Maurizio Viani: Thank you. And could you talk about the cash component? Is the majority of the cash component due to redundancy?

Ron Delia: Again, final details to be determined, but there are redundancy payments here, there are made goods at plants and things like that and that's where a lot of the cash goes to. I think it's important to point out, back to Nick's question, when you have overhead reductions, you get a much faster payback. When you're restructuring or closing plants, you have costs that are incurred in a more spread out way, and you also have a longer time to realise the benefits. So, if you look at the cash, I wouldn't venture to put a percentage on it, but the majority would be related to redundancies, both at the [inaudible] level and the overhead level.

Maurizio Viani: And why is the non-cash component so small compared to the cash component? Is it because you are shutting down old plants that are already depreciated?

Michael Casamento: Yeah – no look, that – that's right. I mean obviously if you're looking at those – those assets that we have across the board, you know, they are, you know, a mixture of lifetime – you know, through their lifetime. But that's really the reason for…

Ron Delia: Low book values.

Michael Casamento: Low book values, you know, in terms of the – the different projects that we're looking at. Obviously the details are still to be worked through, as Ron said, and we'll update you further when we get to it.

Maurizio Viani: And is the legislation on plain packaging in tobacco had an impact on your choices?

Ron Delia: No, none. I mean, we haven't really had much of an impact and – and, you know, that's something that has been going on for a while and we'll expect it to continue – to evolve from a regulatory perspective. But this is, again, it's spread across our Flexibles segments – flexible packaging, and tobacco packaging – so there's no particular catalyst here.

Maurizio Viani: Thank you very much.

Operator: Thank you. Our next question comes from the line of Richard Johnson from Citi. Please go ahead.

Richard Johnson: Thanks, sorry just a follow up, Ron, on Flexibles. I was just curious to the extent to which you're going to need to communicate with your customers around the footprint rationalisation, and how complex that made it?

Ron Delia: Oh Richard, look, there's a whole range of stakeholders to communicate to. Customers are really important, co-workers are really important, local works councils are really important. I think that I – I feel pretty confident in saying that what we're doing in Flexibles here is going to be really, really well welcomed by the customer base. I'll probably leave it at that, but this is to better enable us to deliver against their needs and better support the customers. So I don't – I think this is nothing but positive actually, when the details are worked through and come out it will be very well received by the market – by the customers.

Richard Johnson: Okay, and would it be fair to argue that because your footprint or the breadth and the depth of your footprint is – is pretty unique in Europe, that you're almost alone in your ability to do this. So ultimately it shouldn't – it should significantly improve your competitive position relative to your – to your other major competitors?

Ron Delia: I think that's fair. I think that's fair. I think I would also point out it's not just Europe. We have developed markets activities in this segment, you know, in other – other developed markets in the world. But yeah look, we have, in the Flexible segment at large, we would have probably 120, 130 plants, of which, you know, a significant number in developed markets. So, yeah we have a unique ability to rebalance capacity and shift assets around.

Richard Johnson: That's very helpful, thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced.

Ron Delia: Any other questions in the queue, operator?

Operator: There are no further questions at this time.

Ron Delia: Okay. Well look, thanks everyone. Operator, we might end the call there. I just would again go back to where I started. Thanks for joining the call. These two steps – these two announcements today really are about better positioning the company going forward, and we'll continue to keep you posted on both – in both regards as we make earnings announcements in August, and our AGM obviously in October. So thanks very much.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.

[END OF TRANSCRIPT]